



ASAF(MRA,I-E)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON DC 20301-3000

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MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS, LOGISTICS & ENVIRONMENT)
ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND ENVIRONMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (MANPOWER,
RESERVE AFFAIRS, INSTALLATIONS & ENVIRONMENT)

SUBJECT: Military Housing Revitalization Program Policies and Procedures

The Housing Revitalization Support Office (HRSO) was established to develop program policies and procedures and to facilitate implementation of military housing privatization authorities contained in the Military Housing Revitalization Act of 1996, as amended.

Attached are the housing privatization program policies and procedures for the initial portion of our five year test period. They define key events and responsibilities, from initial screening of projects through contract award, for development of housing privatization initiatives using the new authorities. As we all gain experience in the development and implementation of privatized initiatives over the next 12 months, we will reevaluate these program policies and procedures (with the Military Departments) to determine how best to devolve actions to the Services in order to accelerate program execution and expand on initial successes.

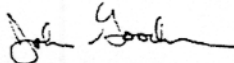
The attached program policies and procedures must be used in conjunction with the Under Secretary of Defense (Comptroller) Family Housing Improvement Fund Financial Management Policies and Procedures of July 15, 1996. We anticipate that USD (Comptroller) will soon update the financial management policies and procedures to address the recent addition of authority to apply the 1996 Act to unaccompanied housing. Together, these documents define the overall process for executing housing privatization projects under the new authorities, and comply with the functional and organizational terms of reference contained in the September 25, 1995, SecDef Charter for the Housing Revitalization Support Office. In short:

- The Military Departments will identify potential locations to test the housing privatization initiatives;
- The Deputy Under Secretary of Defense (Industrial Affairs and Installations) (DUSD (IA&I)), in coordination with the DoD General Counsel and the USD (Comptroller), will initially approve all RFPs and contracts to be executed under the new housing privatization authorities;



- HRSO will provide ongoing technical and financial support as a member of the solicitation and source selection team for each project, and will ensure appropriate involvement of the USD (Comptroller) and DoD General Counsel; and
- The DoD Family Housing Improvement Fund and the Military Unaccompanied Housing Improvement Fund will be centrally managed by the DUSD (IA&I) in conjunction with the USD (Comptroller). The funds will be separately administered and commingling of funds is prohibited. Upon acceptance of a project proposal by OSD as a candidate site for privatization under HRSO authorities, the DoD Family Housing Improvement Fund or the Military Unaccompanied Housing Improvement Fund, as appropriate, may be used for funding costs associated with bringing the proposed housing privatization initiative to contract award. The conditions under which these Funds may be used are detailed in the attached procedures.

Questions regarding application the attached program policies and procedures should be directed to Mr. Robert Meyer, Director, Housing Revitalization Support Office (HRSO) at (703) 607-3207.



John Goodman
Deputy Under Secretary
(Industrial Affairs and Installations)

cc: Under Secretary Of Defense (Comptroller)
DoD General Counsel

Attachment

Privatizing Military Housing

Introduction: The following process is to be used by the Military Services in *site nominations* of potential privatization projects; in *project development and OSD approval* of projects for execution under the 1996 Housing Privatization authorities; in *RFP development and competition* of projects; and, in *project award and transfer of funds*. The process includes necessary *Congressional notification* steps. A process flow chart which depicts expected timelines is included as Attachment 1.

Site Nominations

Initial Screening of Potential Sites: The Military Services will select potential housing sites and perform preliminary evaluations of project feasibility. The HRSO Deal Evaluation Model (pro forma) will be utilized by the Military Services in screening potential sites to establish potential project income and costs. HRSO is available to assist with data collection and completion of the pro forma.

Pro Forma Information: Specific data needed to develop the pro forma includes:

Pay Grades of Anticipated Occupants - Appropriate BAQ & VHA rates are used to estimate the anticipated rental income for the project.

Market Rents and Occupancy Data - Market rents for equivalent units in the private sector; the local vacancy rate, and the base vacancy rate.

Construction Requirements - The bedroom mix and size of each unit.

Cost Data for Construction - Private sector cost of construction (per square foot) in the local area, developed land cost, and construction financing information (e.g., prepaid points, interest rate and term of loan). First mortgage data (e.g., debt service coverage, mortgage points, interest rate, amortization period) is also needed.

Pro Forma Outputs: After estimating development costs and rental income, the pro forma determines the amount of private sector financing potentially available. The amount of equity that a developer might contribute can be determined by varying the pro forma until the cash-on-cash return is in the 12 - 15 % range. The amount of government funding which may be needed to ensure the financial viability of the project is the difference between development costs and the sum of private sector financing and anticipated developer equity.

Development Gap: Projects requiring a government contribution greater than 60% should normally be procured as MILCON projects. However, projects exceeding this guideline may be considered if extenuating circumstances warrant exception.

Funding Source: A funding source sufficient to cover the estimated gap should be identified for each project nominated. Examples of funding sources include: an appropriated MILCON project; a land contribution; the Family Housing Improvement Fund or the Military Unaccompanied Housing Improvement Fund. Monies appropriated for the Improvement Funds require DUSD(I&I) and OUSD (Comptroller) approval before release for HRSO projects.

Project Development and OSD Approval

Project Development: After nomination by the Military Service, a site visit and project evaluation is conducted jointly by the Service and HRSO. Consultants with extensive background in private sector development are used to assist this process. This evaluation defines the potential for a successful privatization project.

The Military Service should submit the following to HRSO at least 10 days prior to the date of the requested site visit:

- A financial pro forma for the proposed project
- Copies of the applicable DD Form 1391
- The most recent housing market analysis for the installation
- Copies of any feasibility studies prepared
- Installation maps (if an on-base scenario is proposed)
- Estimated value for any DoD property which may be included in the project

Following the site visit, HRSO will work with OMB to estimate the scoring impact of potential options raised during the visit. Current OMB scoring guidelines are at Attachment 2. HRSO will then issue a Site Report and Privatization Recommendation. This report will provide options to fill any development gap identified during the site visit. In addition to laying out appropriate ways to use the HRSO authorities, the report will list issues (such as taxes, utilities, schools, etc.) to be addressed. The Services must address the critical issues ("deal breakers") before going forward to OSD for approval. Other issues should be addressed in sufficient time to provide meaningful information to potential bidders.

Once the "deal breaker" issues in the HRSO Site Report are resolved and the Military Service decides to pursue a development approach, it may request that OSD accept the project as a HRSO privatization project.

1

OSD Approval: DUSD(IA&I), in coordination with Comptroller and General Counsel, will review the privatization project and decide whether to approve going forward. Once approved, funding from the Family Housing Improvement Fund (FHIF) or the Military Unaccompanied Housing Improvement Fund (MUHIF), as appropriate, becomes available for expenses required for the planning, execution and administration of contracts. FY 97 (and prior) HRSO projects, at locations where no current Milcon project exists, may receive such funding, subject to availability of funds. For locations where Milcon projects exist, and for all HRSO projects after FY 97, the Services will fund costs of developing the project for award. The amended HRSO authorities allow use of Milcon or any other Service funds which were appropriated for similar expenses.

OUSD(Comptroller) will initiate the process of making funds available from the FHIF or MUHIF for the planning, execution and administration of contracts. This requires a notice to OMB and a 15 day wait prior to fund availability.

Solicitation Development And Competition

Solicitation Development: A procurement team of Military Service and HRSO representatives, augmented by consultants provided and paid by HRSO, will test the development approaches at an industry conference open to potential bidders. HRSO will continue discussions with OMB during this phase to refine estimates of project scoring. Based on these inputs, the team will prepare solicitation documents for review and approval by DUSD(IA&I) in coordination with Comptroller and General Counsel.

Congressional Notification of Intent to Issue Solicitation for Proposals: Upon approval, the Military Service notifies Congress of the intent to solicit proposals. Public Law then requires a 30 day wait period before issuance of the solicitation and publicly starting the acquisition process.

Competition: The joint procurement team will stay together through proposal evaluations, contract award and beyond, to ensure actual delivery of the houses. During this period the HRSO will continue to provide consultant support necessary to analyze and to assist in the negotiation of the deals, and will coordinate with OMB on the precise budget scoring of the project. The joint procurement team should consult with DoD General Counsel concerning any significant departures from the terms of the solicitation during the negotiation process. Furthermore, the joint procurement team should involve DoD General Counsel early in the agreement drafting process.

Project Award and Transfer of Funds

Project Award: Once the deal is negotiated to the satisfaction of the Military Service and HRSO Team, the details of the project are presented to the DUSD(IA&I) in conjunction with USD (Comptroller) and DoD General Counsel for approval to award the contract. After obtaining approval, *a second Congressional notification is required*. This notification is the responsibility of the USD (Comptroller) and will contain written notice of the terms of the anticipated contract award and details of the project funding.

After this Congressional notification, Public Law requires a 30 day wait period before contract award.

Military Service Transfer MILCON Funding to the Improvement Funds: The Military Service may cancel the designated MILCON project and transfer the funds into the Family Housing Improvement Fund or Military Unaccompanied Housing Improvement Fund at any point in the process, subject to Congressional notification. However, the funding must be in the Family Housing Improvement Fund or the Military Unaccompanied Housing Improvement Fund prior to contract signing.

Project Award to Project Completion

Project Oversight: The Military Services will execute contracts and perform construction management, as appropriate. The Military Services will provide HRSO with periodic updates on project completion status.

Project Status Reporting: HRSO will report regularly to senior DoD managers and the Congress on implementation of the housing privatization initiative and on the status of individual projects undertaken under the privatization authorities.

Privatization of Military Housing Implementation Process

